



The Next Global Stage

CHALLENGES AND OPPORTUNITIES
IN OUR BORDERLESS WORLD

KENICHI OHMAE

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*To Ron Daniel, who showed me the global
stage when I was a young, aspiring consultant.*

CONTENTS

Introduction	xv
The Plot	xxii
Part I: The Stage	1
Chapter 1: The World Tour	3
The Curtain Rises	3
The World as a Stage	5
A Speedy Global Tour	6
Meanwhile in Ireland	10
Finland: In from the Cold	13
What Is the Global Economy?	18
Borderless	20
Invisible	22
Cyber-Connected	23
Measured in Multiples	23
Chapter 2: Opening Night	27
The World AG	27
Leading the Dinosaur	28
The View From the Hotel: Detroit	30
Busting the Budget	33
Gates to the Future	35
14 AG: China	37
Putting an “e” in Christmas	42
Chapter 3: The End of Economics	45
Reinventing Economics	45
Economic Theories That Once Fitted the Times ...	49
New Fundamentals Require New Thinking ...	53
Turning the Taps On and Off	54
Deflation and the GDP Deflator	56
Interests Rates and Nest Eggs	57
Can Physics Help?	58
A Complex World	59
The Curve Ball	61
Oscillating Wildly	62

Paradigm II	65
The Power of Politics	65
The Difficulty of Changing Habits	67
Uncle Sam Goes Global	71
The New Economic Paradigm	75

Part II: Stage Directions 79

Chapter 4: Playmakers..... 81

Finding Your Bearings on the Global Stage.....	81
How Nation-States Retard Economic	
Development	87
The Nation-State Fetish.....	88
Strong States	90
The Rise of the Region.....	92
Defining the Region-State	93
Indian Summers	96
Carried Away in China	98
Not All Regions Are Created Equal	102
Surprising China	102
Microregions	103
Flexibility.....	106
Size and Scale Matter, But Not in a	
Traditional Way	107
Regions Are Gaining Their Deserved	
Recognition	109
Practical Considerations	110
What a Successful Region Has to Do.....	111
Branding Places.....	113
The Will to Succeed	114
Organizing Regions	115
Other Unions.....	119
Free Trade Area or Fortress?.....	121

Chapter 5: Platforms for Progress 125

Relentlessly Forward	125
Developing Technology Platforms	127
Language as Platform	132
English Inc.	134
The Platform Profusion.....	137
Other Platforms	138

Chapter 6: Out and About	145
Border Crossings	145
Technology: The Fairy Godmother	148
BPO: India as a Launch Pad	149
Dormant India	152
More Than a One-Country Wonder	157
BPO as a Platform	161
Home Sweet Home	163
Myths and Half-Truths	164
The View from India	166
Reaping the Benefits	170
BPO in a Borderless World	172
Chapter 7: Breaking the Chains	173
The Portal Revolution	173
The Search	174
Have You Been Googled Recently?	175
Paying the Bill: The Payment Revolution	178
On the Rails	179
Delivery: The Logistics Revolution	180
The Arrival of the Micro Tag	183
Cool Chains and Fresh Food	185
Deliverance	187
Using Logistics to Solve Bigger Problems	188
For Dinner	190
Part III: The Script	191
Chapter 8: Reinventing Government	193
Disappearing Power	193
Beyond Distribution	196
Size Matters	198
Downsizing and Resizing	199
A Vision for Change	200
The Japanese Vision	201
Mapping the Future	202
Visions Versus Mirages	204
Government Vision	204
Getting Noticed	205
Only Educate	206
Closing Down Distance	208

A New Role for Government	210
China: Governing the Ungovernable	211
Malaysia's Corridors of Power	213
Singapore's Appetite for Reinvention	214
Swedish Rhapsody	217
The Craic of the Irish	220
Chapter 9: The Futures Market	223
All Change	223
The Technological Future	224
Technological Progress Means Death	
Is a Fact of Business Life	225
The Rise of VoIP and Its Impact on	
Telecoms	233
Join the March Early	235
The Personal Future	238
Embrace Leadership	239
Value Information and Innovation	241
Embrace Flexibility	243
The Corporate Future	244
The Homeless Corporation	246
Innovation, Inc.	247
The Adaptive Corporation	250
Beyond Hierarchy	251
Chapter 10: The Next Stage	255
The Regional Future	255
Hainan Island	256
Petropavlosk-Kamchatsily, Russia	258
Vancouver and British Columbia	259
Estonia	260
The Baltic Corner	262
Ho Chi Minh City, Vietnam	263
Khabarovsk, Maritime (Primorye) Province and	
Sakhalin Island, Russia	266
São Paulo, Brazil	266
Kyushu, Japan	267
Chapter 11: Postscript	269
Reopening the Mind of the Strategist	269
Beyond the Daydream	271
Index	273

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ABOUT THE AUTHOR

Kenichi Ohmae is one of the world's leading business and corporate strategists. Born in 1943, he earned a doctorate in nuclear engineering from the Massachusetts Institute of Technology, and subsequently worked as a senior design engineer for Hitachi. He then joined McKinsey & Company, becoming a senior partner, developing and running the company's Japan operations for a number of years. He gained an unrivaled knowledge and sensitivity to developments in a wide range of business sectors.

Many of his books have been translated into English, including *The Mind of the Strategist* (McGraw-Hill), *Triad Power* (Free Press), *The Borderless World* (Harper Business), *The End of the Nation State* (Free Press), and *The Invisible Continent* (HarperCollins). He is a frequent contributor to many of the world's leading newspapers and news magazines, including *The Wall Street Journal*, *The New York Times*, *Harvard Business Review*, and *Newsweek*. He lectures on entrepreneurship at the Attacker's Business School, which he founded in Japan.

He is the founder and managing director of a number of flourishing businesses in Japan, including Business Breakthrough Television (a 24/7 business channel); Ohmae & Associates; EveryD.com Inc.; Ohmae Business Developments Inc.; and General Services, Inc., a cross-border business process outsourcing company in China.

For Kenichi Ohmae, the world has become truly unified with the advent of telecommunications technology. As a scientist and consultant, Ohmae has always been alive to the role that technology can play in breaking down barriers and the implications this has for business and society. He has developed a number of platforms in areas such as distance education, the home delivery of groceries, and an address book database. These include “Air Campus,” which facilitates distance learning, and “Everyday dot-com,” which delivers groceries using micro bar codes on the Internet or mobile phones. His advice and unique insights are constantly sought by both government leaders and businessmen.

INTRODUCTION

Ideas do not emerge perfectly formed. They are awkward amalgams of experience, insight, hopes, and inspiration. They arrive on stage blinking under the bright lights, hesitant, unsure as to the audience's likely reaction. They evolve and develop, alert to changing reactions and circumstances.

I have been rehearsing the arguments that form the backbone of *The Next Global Stage* for more than two decades. My previous books, including *The Borderless World* and *The Invisible Continent*, examined many of the issues I am still exploring. Ideas, as I say, do not emerge in a state of perfection.

In its genesis, *The Next Global Stage* has been shaped by two forces.

First, it bears witness to changing circumstances. Over the last two decades, the world has changed substantially. The economic, political, social, corporate, and personal rules that now apply bear scant relation to those applicable two decades ago. *Different times require a new script.*

The trouble is that, far too often, we find ourselves reading from much of the same tired script. With the expansion of the global economy has come a more unified view of the business world. It is seen as

a totality in itself, not constricted by national barriers. This view has been acquired not by the traditional cognitive route of reading textbooks or learned articles. Instead, it has come directly, through exposure to the world, frequent travel, and mixing with the world's business people. Paradoxically, perhaps, this breeds a similarity of outlook. Opinions and perspectives are shared; the type of developments in the political and economic worlds that are held to be important are shared, too. With shared outlooks come shared solutions. But a common view of the world will not produce the unorthodox solutions and responses required by the global stage.

Over the last 30 years, I have traveled to 60 countries as a consultant, speaker, and vacationer. Some countries, such as the United States, I have visited more than 400 times; Korea and Taiwan 200 times each; and Malaysia 100 times. Recently, I have been averaging six visits a year to China and have started a company in Dalian, as well as producing 18 hours of television programs seeking to explain what is really happening there in business and politics. I also spend a lot of time on the Gold Coast in Australia and in Whistler, Canada. Of course, as a Japanese national, I live in Tokyo and travel extensively within Japan.

As you can see, I believe that nothing is more important than actually visiting the place, meeting with companies, and talking to CEOs, employees, and consumers. That is how you develop a feel for what is going on. For some of my visits, I have taken groups of 40–60 Japanese executives so they can witness first-hand regions that are attracting money from the rest of the world. I have taken groups to Ireland to see how cross-border business process outsourcing is reshaping its economy. I have taken them to see Italy's small towns that are thriving on the global stage. We have also visited Scandinavian countries to find out why they have emerged as the world's most competitive nations, and Eastern Europe to see how they may be positioned in the extended 25-member European Union. The group has also visited China and the United States twice, as well as India, Vietnam, Malaysia, Singapore, the Philippines, Korea, and Australia.

The executives who join me on these trips change their views of the world. Even in the days of the Internet and global cable news, walking around, listening, looking, and asking a question is still the best way to learn. Seeing what is happening in the world firsthand changes perspectives. Having witnessed the global stage, executives then begin to read newspapers and watch television with different

eyes. Gradually, their views broaden and they feel comfortable in their roles as actors on the global stage. It does not necessarily come easily; new skills are required.

The second defining force behind *The Next Global Stage* is that, over the last 20 years, I have witnessed some of the pioneers of the global economy firsthand.

One of the first business leaders to be sympathetic to the notion of the truly global economy was the former CEO of Smith Kline Beecham, Henry Wendt. He saw cross-border alliances as a potential savior for the American pharmaceuticals industry and recognized that internationally based strategic alliances would become important, if not vital.

Henry realized that there were three dominant markets in the world: the United States, Japan and the Far East, and Europe. No *single* company could deal with and service all these markets effectively, no matter how powerful and dominant it might feel. No corporation could hope to cover a market of 700 million people that had a per-capita GNP income of more than \$10,000.

Companies traditionally used a marketing strategy that depended on a sequential penetration of each market, whether it was a region or a country. When you established yourself and your product in market A, then (and only then) you moved on to market B. But Henry Wendt proposed that when you have a good product, you have to adopt a sprinkler model, penetrating various markets *simultaneously*. One way to achieve this is through strategic cross-border alliances.¹

Henry Wendt entered into negotiations with Beecham, a company with a particularly high reputation in R&D and a strong presence in Europe, and, in time, these negotiations led to a merger. Not only did he opt to go down the merger path, but also, with powerful symbolism, he moved the company's corporate headquarters from Pittsburgh to London.

Henry Wendt had foresight and vision. His notion of cross-border alliances was truly innovative. In those days, such alliances and mergers were difficult because each large company was embedded in its domestic markets. These companies were also under the thumb of their respective domestic governments, with which they were closely linked and closely identified. It is very difficult to abandon your home turf. (Witness the more recent outcry about outsourcing.) For one thing, there may be government resistance (as we have seen in merger talks across Germany and France). There are also media commentators,

like mammoths or dinosaurs stuck in a freezing swamp, who describe such moves as unpatriotic and unprincipled. They tend to report on one or other side “winning” in any merger, as with Daimler Chrysler.

In a world where borders were weakening, cross-border alliances were the only way for a company to survive and prosper. In the pharmaceuticals world, drugs were becoming more standardized. The important and potentially profitable compounds and formulas became less distinct. This was accompanied by an astronomical rise in the cost of R&D. New regulations piled on both costs and delays. Yet the amount of money invested in R&D had only an indirect link to the level of success that could be achieved. A company could build up the best-equipped laboratories, staffed with the optimal mixture of experience and youthful brilliance. This never guaranteed success. There was still an element of chance determining whether the right leads would be pursued and the breakthroughs realized.

The dilemma is that when the R&D is successful and a superdrug is born, you might not have adequate sales forces in the key markets of the world. So the amortization of R&D money is less, and, at the same time, you might have to keep expensive people in the field even when you don't have drugs to sell. This is the problem with industries such as pharmaceuticals, where high fixed costs demand size to justify them. That is why you need to seek strategic alliances and sometimes to go one step further to total cross-border mergers. In the mid-1980s, examples were few and far between. But now, we see examples of cross-border alliances and M&As almost daily in banking, airlines, retailing, power generation, automobiles, consumer and business electronics, machinery, and semiconductors.

Size and capitalization did play a part. A medium-size pharmaceuticals company might well spend \$1 billion in R&D and have no results, but a larger company might be able to sink \$3 billion into R&D. It could afford to miss the target more often and still remain profitable. Cross-border alliances allowed more companies to do this. It was only possible, though, once they saw beyond their home markets. Today, the concept of cross-border alliances is no longer a novelty. Henry's path-breaking role deserves recognition.

Another early pioneer of the global economy was Walter Wriston, former chairman of Citibank. He saw globalization as an imperative not because of management or business theories, but because of technological breakthroughs. He prophesized that competition between banks would no longer be based on banking services, but on

acquiring better technology. Effectively, the company able to make decisions quicker, often in the fraction of a nanosecond, would be the winner.

Walter Wriston understood the future shape of banking—and of the global economy. It was to be based in a world without borders; it would float around decisions made in a split second, sometimes by nonhumans. Technology was to be the key to success in banking, so the person at the helm of Citibank had to be technology savvy. But his vision left him in a minority. Twenty years ago, most top bankers were traditionalists. They saw relationships of trust and confidentiality forged among business and governmental hierarchies as the key to success, not technology. Technology was all good, but it was for whiz kids, not bankers.

John Reid, Wriston's handpicked successor as head of Citibank in 1984, was not a product of the traditional East Coast banking establishment. Reid was a technologist. An MIT graduate, he had been working in Citibank on ATM applications and other electronic banking projects. At the time of his appointment, he was virtually unknown within the corporation. Some even greeted his appointment with the question "John Who?."

Walter Wriston defended his decision by saying that it was very hard to teach technology to an established banker, but relatively easy to teach banking to a technology specialist. As for relationships, these would develop over time. Under Reid's stewardship, Citibank became the largest bank in the world. Along the way, he astutely led Citibank through the Latin American financial crisis.

Yet another business leader who was ahead of his time was Akio Morita, co-founder of Sony. The original business was called Tokyo Tsushin Kogyo or Totsuko (TTK). This name, even in its abbreviated form, was too difficult for Western markets. So Morita came up with the four-letter *Sony* to represent the quality of sound from his transistor radios. For Morita, the world was one big market, with few or no barriers. He thought big but was no megalomaniac. He famously advised companies to "Think Globally, Act Locally." This philosophy was christened *glocal* by the Japanese magazine *Nikkei Business* and led to the coining of a new word, *glocalization*.

These visionaries shared many of my views about the then-emerging global economy, explained in such books as *Triad Power* and *The Borderless World*. I was fortunate enough to exchange views with all three of them and many others in the mid-1980s and beyond. However, discussions on the importance of the region-state proved more elusive and troublesome. I had to wait until the developments within China post-1998 to gain any sort of useful practical perspective on this issue.

Some Stage Directions

In *The Next Global Stage*, with these intellectual antecedents in mind, I begin by looking at the state of the world and how we make sense of it. Part I, “The Stage,” looks at some of the areas of explosive growth (Chapter 1, “The World Tour”) and identifies some of the characteristics of the global economy. It then looks back at the birth point of this new era (Chapter 2, “Opening Night”). This part ends with an examination of the failure of traditional economics—and economists—to make sense of the global economy (Chapter 3, “The End of Economics”).

In Part II, “Stage Directions,” I examine the major trends emerging on the global stage. In the opening section of Chapter 4, “Playmakers,” I explore the development of the nation-state and the dynamics of what I call the region-state, the most useful and potent means of economic organization in the global economy. I go on (in Chapter 5, “Platforms for Progress”), to introduce the idea of platforms, such as the use of English, Windows, branding, and the U.S. dollar, as global means of communication, understanding, and commerce. Finally, I explore what parts of business have to change in line with the emerging economy. These include business systems and processes (Chapter 6, “Out and About”) and products, people, and logistics (Chapter 7, “Breaking the Chains”).

In Part III, “The Script,” I provide analysis of how these changes and trends will impact governments (Chapter 8, “Reinventing Government”), corporations, and individuals (Chapter 9, “The Futures Market”). I look at some of the regions that might be the economic dynamos shaping the world beyond the global stage (Chapter 10, “The Next Stage”). In the final section, I revisit my book, *The Mind of the Strategist*, and think through the need for changes in the frameworks we use in developing corporate strategy on the global stage.

The Next Global Stage makes sense of the world as I see it. Twenty years ago, globalization was a term, a theoretical concept. Now it is a reality. *The Next Global Stage* is part of a process of understanding the new rules that apply in this new world—and often, there aren't rules to adequately explain what we now experience on a daily basis. It is not an endpoint, nor is it a beginning, but I hope it is an important step forward for companies and individuals, as well as regional and national leaders.

Kenichi Ohmae
Tokyo
September 2004

Notes

- ¹ I explored this theme in *Triad Power: The Coming Shape of Global Competition* (New York: Simon & Schuster, 1985).

THE PLOT ---

We live in a truly networked and interdependent world, united by a global economy. In the past, business and economics were like plays (maybe by the same author) performed in separate theaters to discrete audiences. Their actors and actresses were distinct, and their manner of performance was often influenced by the individual theater's tradition. Now the drama takes place on one enormous global stage. The players on this stage are sometimes in competition for the audience's attention, but movements across the stage are free-flowing, no longer obstructed by obsolete stage furniture. The global stage is in a state of perpetual motion. *The Next Global Stage* provides a script to negotiate your route through the shifting plot lines.

This has been made possible by advances in information technology. Data now passes freely from one side of the world to the other, along fiber-optic cables or satellite transmissions. Information defies barriers, whether physical or political. It is facilitated by the establishment of platforms for streamlining the application of technology to definite tasks. Powerful search engines, such as Google, make it possible to find and combine unrelated pieces of information in the digital labyrinth. In the analog society, discrete pieces of information had to be humanly spliced together to draw out meaning. Now, mindless robots running through millions of interconnected computers are

capable of putting together the synthesized information and implications in a matter of milliseconds. Information from 8 billion Web pages (as of January 2005) is amalgamated to draw a synthesized perspective and knowledge in a split second. In the past, it took a wise man or an experienced journalist to relate one piece of information with another, but now any layperson can find relationships among many seemingly unrelated events and incidents by throwing multiple words into a search engine.

In the past, chemists searched relevant articles in *Chemical Abstract*, an authoritative and massive collection of all the work by chemists around the world. Stock buyers and traders searched key information using Bloomberg, Reuters, Telerate, Nikkei, or other influential sources in their particular country. Now Google or other such search engines are the common portal. Chances are, most of the information—or, at least, the clue to the information—you are looking for exists in digital form. So, mankind has migrated into the borderless and digital world without an official opening ceremony at the new global theater.

The global theater has many world-changing implications, some already being put into effect in countries such as China, Finland, and Ireland. The global economy ignores barriers, but if they are not removed, they cause distortion. The traditional centralized nation-state is another source of friction. It is ill equipped to play a meaningful role on the global stage, whereas its component regions are often the best units for attracting and retaining prosperity. The region-state is the best unit of prosperity on the global stage, but this can be enhanced by coming together informally in larger umbrellas, such as the European Union, which can enhance free trade, consistency of governing laws, and market integration.

The revolution in data-transfer technology has already had an impact on the nature of money and capital movement. Money can flow unrestricted to the areas of highest return. Old notions about corporate value are challenged by the growing influence of multiples and derivatives. A lot of traditional thinking on economics depended on national policy. In countries where outside world influences strongly affect the domestic economy, old economic theories do not hold up.

Consider the two very different economic crises in Argentina over the last decade. The first put the whole country, as well as plenty of outsiders, into a state of panic; the second did not. By the time of the second crisis, most people associated with Argentina, both

insiders and outsiders, depended less on its domestic currency, the *new peso*, because most of them had converted their assets into the dollar, a global standard for savings and settlement.

If, as I believe, the global economy is powered by technology, then knowledge is its precious metal. India's strength, for example, can be substantially attributed to the sheer volume of its Ph.Ds in science. Emerging nations can propel economic growth through education. An area no longer has to be endowed with mineral wealth or a large population, or a strong military, to become a major player on the global economic stage. It can acquire its wealth and know-how through investment from the rest of the world beyond its borders. This must no longer be seen as a threat, but as a source of immense opportunities.

Although the global economy presents opportunities, there are also challenges to be faced by government, businesses, and individuals. These can only be met by adopting flexibility and pragmatism.

1

THE WORLD TOUR

The Curtain Rises

The Great Hall of the People on Beijing's Tiananmen Square is accustomed to choreography. For more than four decades, the vast auditorium echoed to the well-rehearsed speeches of China's communist rulers, urging their compatriots to yet greater sacrifices in the name of Socialism. Alternatively, it rang with plaudits for its leader, Chairman Mao Zedong, the Great Helmsman, each of whose appearances were greeted by the thunderous ovations of thousands of "parliamentarians" gathered from all corners of China for the spectacle.

The auditorium of the Hall of the People can seat more than 8,000 people. Its dimensions symbolized the place where the unity of the nation was displayed. It was a perfect location for mass culture, such as the staging of "proletarian opera"—as long as this did not interfere with its pre-eminent political role.

Most of the former uses to which the Great Hall was put are now overlooked. They are, at best, oddities from the past, not unlike the giant portrait of Chairman Mao that continues to flutter in a corner

of Tiananmen. The Great Hall of the People is still home to the National People's Congress, the Chinese parliament, but the bill of fare of its extracurricular activities has changed radically.

In the autumn of 2003, it hosted performances of the Irish dance spectacle *Riverdance*. The show is based on the Irish tradition of step or tap dancing, and the music, written by Irishman Bill Whelan, blends traditional Irish folk music, Japanese drumming, flamenco, and modern dance rhythms. The 70 strong troupes of Riverdancers were in Beijing in response to a personal invitation made by Premier Zhu Rongji during a visit to the Irish Republic.

Riverdance started out modestly enough. It was an intermission piece in the Eurovision Song Contest staged in Dublin in 1994. The winning song is long forgotten, but *Riverdance* goes from strength to strength. Its success has been global. It has been staged in 27 countries, and it is estimated that a quarter of the planet's population may have seen it through television broadcasts. In spite of the show's phenomenal successes in venues such as Madison Square Garden in New York, Tokyo's International Forum, and Wembley in London, success in China was a dream that had driven the show's organizers for years. The Great Hall of the People was just one stop on a tour of the Far East comprising 46 shows in Malaysia and Hong Kong, as well as China.

The response was amazing (as it had been when *Riverdance* visited Japan); the Chinese media gave blanket coverage to *Riverdance* in the week preceding the first show. Nevertheless, there was nervousness among the cast and organizers as to how a Chinese audience would respond to something so novel and so different. The Chinese are accustomed to large-scale spectacles, but these usually have a very distinct and crude ideological purpose. *Riverdance* makes no such demands on potential audiences.

The worries proved misplaced. Each of the six shows in Beijing was sold out, and two extra matinee performances had to be included. In addition to the Great Hall of the People, the Riverdancers staged a performance at a site on the Great Wall of China.

Riverdance caught my attention because, though it may have deep Irish roots, it is very much an international phenomenon. Its original stars were the American dancers Michael Flatley and Jeanne Butler. Its current lead male dancer, Conor Hayes, is Australian, and the *Riverdance* troupe includes dancers from the United States, Spain, Russia, and Kazakhstan, as well as Ireland. So international is *Riverdance's* style that it has been rubbished by cultural purists in Ireland.

Much of the financial backing for *Riverdance* came from the United States, but the experience and excitement generated by it flows around the world, recognizing nothing so puny as a national border. The audiences who witnessed the *Riverdance* spectacle in Beijing reacted with more genuine enthusiasm than to any of the clichés that fell from the lips of the Great Helmsman.

The symbolism of the performance was not lost on those involved. Bill Whelan commented, “*Riverdance* is a political thing as much as a cultural thing.”¹

Riverdance in the Great Hall of the People is a suitable metaphor for the global economy. It originated in the Western world. Its roots in Ireland, one of the global economy’s most dynamic success stories, are significant. It blends elements from Ireland’s culture with features from other cultures and backgrounds, which are, in turn, performed by people from throughout the world. It was originally choreographed by an American and was performed on the largest stage in one of the world’s fastest-growing economies: China. *Riverdance* is not insular, and no one could say that it is bland.

The World as a Stage

So how does *Riverdance* connect to the work of executives? Simply and directly. Any executive in a global corporation—and which decent-size corporation is *not* global?—is involved in similar global projects. These projects are complex, involve participants from throughout the world, demand cultural sensitivity, require global financing, and are often targeted at emerging economies.

“All the world’s a stage, and all the men and women merely players....”² This was an elegant metaphor for Shakespeare, but for us, it is not metaphorical: It is reality. The world is one huge arena for economic activity, no longer compartmentalized by barriers or other unnecessary stage furniture. We all form part of a giant troupe of interdependent actors and actresses. We don’t all recite the same lines or even perform similar repertory pieces, but none of us is entirely independent.

The interconnected, interactive, global economy is a reality. It is often confusing and disorientating: It challenges both the way we see business and the way we do business.

The global economy presents itself in many different forms, like an actor donning different masks and costumes. For example, there

are the gigantic global flows of money. There is also the growing mountain of credit-card purchases, a process enhanced by the Internet. We can see it, too, in the trade deficit between the United States and China. The world's biggest economy has run up a huge trade deficit with China about which it worries incessantly; it might also worry about being technically bankrupt. China, too, has a growing trade deficit, as it seems to voraciously suck raw and semifinished materials, machines, and robots into its economy. But these are worries that belong to the old world of increasingly outdated economic paradigms and indicators.

The global economy is largely invisible. (That's why I called my previous book *The Invisible Continent*.) It should not be confused with some dark matter that hovers and lurks menacingly, ready to grab and devour the unwary. The global economy's effects are clearly evident throughout the world. We are all players on the global stage, and we all feel its effects.

A Speedy Global Tour

In fact, to set the scene, it might be a good idea to take a whirlwind tour around the world. During our trip, we will see examples of the global economy in action. So, as we began this chapter in China, let us also begin our "Cook's Tour" of the globe there.

The city of Dalian is situated near the southeastern tip of the Liaodong peninsular that hangs down from the coast of northeast China, the region formerly known as Manchuria. It is a part of China, but it faces into the Yellow Sea toward Korea and Japan.

The climate guarantees year-round ice-free status to its ports, so Dalian and its neighbors were always destined to enjoy the fruits of trade, communist or not. Dalian's immediate hinterland, on the Liaodong peninsular, is dominated by a beautiful coastline and a landscape of hills, valleys, and forests rich in natural resources, such as coking coal and iron ore. Yet Dalian has always known that it must look outward for its prosperity.

The port was established by the Russians in the late nineteenth century. The Japanese later introduced heavy industry. Dalian adopted a role as an *entrepot* for northeast China. But in the past decade, the city has changed from being a sleepy port into one of China's most important and dynamic industrial centers, with a population surpassing five million. It has combined its old industrial base in Liaoning Province, centered on steel making and chemical and machine-part

manufacture, with new service- and technology-related ventures. There is a reservoir of skilled personnel, supplied by a number of universities and technical institutes. Its demand for labor appears insatiable.

The city continues to grow in physical size and population. It attracts immigrants from throughout northeastern China, drawn by wage levels that, while low by Western standards, are far higher than those available in rural China. Its citizens live in a city with its own commuter train system, as well as good housing, many parks, and leisure facilities, and, above all, clean air and water.

The city's inhabitants have more sophisticated needs than those of their grandparents. In the heyday of Maoist orthodoxy, the workers were badly paid, badly housed, and badly fed. They were given no opportunity to complain. Their leisure hours might be spent attending showings of revolutionary films or, in warmer weather, reading from Chairman Mao's *Little Red Book*.

Today's employees are provided with far better and more interesting facilities. Dalian's shops are stocked with an international range of consumer goods: everything from designer fashion to the latest DVD players. Far more people can buy these, thanks to the city's growing prosperity. Cinemas show the latest commercial blockbusters, but many residents prefer to watch DVDs, available in the city's many electrical and TV emporia.

Dalian has benefited from the seismic change that has swept aside official Chinese thinking on the economy since 1992, when Deng Xiaoping proposed the "one country, two systems" development blueprint. Long gone are the days of central planning. Instead, regional governors and bosses are encouraged to track their own course for the future. This sometimes involves bending the rules, but as long as the exceptions allowed by local bosses remain localized—and they are successful—breaches of discipline are ignored. This has been especially true after the even more drastic reforms launched by then-Premier Zhu Rongji in 1998. Mayors and other local bosses also know that if they fail to deliver annual growth rates in excess of 7 percent for two successive years, their employment will be terminated. Imagine if Michael Bloomberg in New York, Shintaro Ishihara in Tokyo, or Ken Livingstone in London faced such strictures.

In the person of Mayor Bo Xilai, Dalian possessed an extraordinary local ruler. Bo stood out from the crowd—literally—for in a land where smallness of stature is the rule, he stood well over 6 feet tall. He hailed from the western borderlands of China in Shanxi province. He came from a family with respected political pedigree: His father

had taken part in the grueling Long March of the early 1930s, when Mao led his small group of followers on a two-year forced evacuation by foot from southern to northern China. Bo Xilai studied at Beijing University, newly reopened after the madness of the “Cultural Revolution” had seen students and faculty members sent to work in the fields. He was also young, in his late 40s, a comparatively brash young upstart in a land whose political leadership was dominated by 70-somethings. He joined the Communist Party in 1980 and worked in its various branches. His diligence and skill were rewarded when he was appointed mayor of Dalian in 1992. As the city opened to the outside world, Bo and his team attracted inward investment from throughout the world, especially from Japan. Today, there are estimated to be 3,000 Japanese firms operating within Dalian’s city limits.

Bo redefined the job description of the typical Chinese city mayor. No longer content with managing sewerage and housing, he became his city’s chief architect and marketing officer, establishing close links with the cream of Japanese industry and business. But his role did not end after the businesses were established. He recast himself as something akin to the manager of a five-star hotel, keenly and solicitously interested in the welfare of his guests. Foreign businesses were regularly contacted to find out how they were doing and whether they were encountering any difficulties that might be ironed out.

Bo was rewarded for his success in Dalian by being kicked upstairs. He was appointed governor of the whole province of Liaoning. At the time of his departure in February 2001, vast crowds of city residents (particularly women) gathered to see him off. They seemed genuinely sad. In a land long used to choreographed mass hysteria, this might have been dismissed, but the sorrow appeared spontaneous. Bo’s rise continues: In early 2004, he was named the Minister of Commerce for the whole People’s Republic at the age of 53.

Helped by the charismatic Bo, Dalian, along with over a dozen other regions in China, has become a *de facto* regional state, setting its own economic agenda. While still a part of China and, in theory, subject to the rule of Beijing, it is largely autonomous. The reality is that its ties with Beijing are weaker than those with business centers throughout the world.

Success breeds success, and companies that do well in Dalian act as catalysts attracting other businesses, not necessarily from the same sector. As in similar regions of China, there has been an explosion in the provision of services, whether financial or technical. Dalian is

almost a self-sufficient economic entity, with many services being available to business and residents on their doorstep. Dalian has also been at the forefront of the provision of cross-border business process outsourcing (BPO) services in China, in particular in areas such as direct data entry, often for Japanese businesses. These newer developments have been spearheaded by Bo's protégé, Mayor Xia Deren. The historical memories of the Japanese in this part of China might not always have been positive, but these are left in the past, where they belong. Japanese language courses are popular and are regularly oversubscribed. As a consequence, an estimated 50,000 Dalian residents speak fluent Japanese.

It is curious that Dalian, a modern business and economic center, should also enjoy a vibrant tourism industry. Its beaches and water-sports facilities have been protected. A special tourist zone, the Golden Pebble Beach, has been erected, with marinas, two golf courses, and hotels catering for all budgets. Many of Dalian's visitors fly in from elsewhere in China. They form part of the vast and still growing consumer class in China. They have money to spend, not just on automobiles and consumer electronics, but on other aspects of the "good life," such as leisure and private education for their children. Dalian attracts visitors from outside China, too. Many Korean and Japanese tourists now prefer Dalian to Singapore.

Dalian's success relies on its willingness to engage in the new cyber-based and borderless economy. It has also benefited from being allowed to pursue its own path. It reacts directly with the rest of the world, not at the level of part of a nation-state, but instantaneously and directly, as a region. For many decades, Dalian, along with the People's Republic of China, turned its back on the world. The rest of the world was controlled by China's enemies. Now Dalian and other Chinese region-states have enthusiastically embraced the world economy. There are 13 other cities within the province of Liaoning alone whose population exceeds one million. They are all seeking to take their place on the global stage or, at a minimum, to become part of the Yellow Sea Economic Zone. They resemble a flock of flying geese headed by Dalian.

China is probably the country that is benefiting the most from the global economy. China now has the second-highest foreign exchange reserves (\$432 billion) in the world (topped by Japan at \$817 billion) and domestic savings of \$2.5 trillion. More than any other country, it is setting the pace in the global economy. Its 2003 GDP was estimated at \$1.3 trillion, and the communist state has been ranked number

seven in the world (number two in terms of purchasing power).³ Its economy grows at a rate seldom lower than 7 percent annually. Most recently, it has been in excess of 9 percent, a figure for the whole country that includes the richest and the poorest areas.

If we remember the theatrical metaphor, we can see China as being like a rented theater. It is an arena that is being used as a rehearsal studio, a testing ground for global economic realities. But a little disconcertingly, different parts of the stage are being used for varying types of performance. These differ in skill and expertise and, consequently, in audience approval.

As we shall see throughout this book, we must try to divest ourselves of old mindsets. One of the most oppressive is the notion of the nation-state. So when we think of China today, we should not think of the nation-state running from the Yellow Sea in the east to the depths of central Asia in the west, but rather an amalgam of prosperous, burgeoning regions, such as Dalian, set alongside others that might be light-years behind in economic development and prosperity. All these regions vary in size. They are theoretically under the same sovereign state, the People's Republic of China, but part of China's prosperity lies in its ability to forget about this in practice and to allow its region-states to plough their own furrows. In reality, all these regions are engaged in almost manic competition with each other for investment and resources, not as in the old days from the center, but for investment from the outside world.

Meanwhile in Ireland

We started this chapter describing *Riverdance*. Let us now look at the country that inspired it: Ireland.

For many people, Ireland summons up visions of green, mist-covered fields and valleys. But outside the tourism industry, pleasant scenery does not produce wealth. Anyway, these visions belong only in the glossy pages of holiday brochures.

When Ireland became independent as a nation in 1922, it was overwhelmingly rural. Its rulers and citizens eyed covetously the northeastern quadrant of the island of Ireland, which had been kept by Great Britain. It was richer; it was the one area of Ireland that had seen extensive industrialization. So, the rest of the island seemed destined to remain perpetually green—and poor—with its major export people. This strengthened a lack of self-confidence. There was a sense of the country being a victim of forces beyond its control.

From the 1960s onward, attempts were made to attract manufacturing industry from abroad. The Industrial Development Authority (IDA), a government agency, constructed industrial infrastructure and facilities, while the government offered generous tax breaks such as a 10-year moratorium on corporation tax payments for foreign direct investments (FDI). These moves were only partly successful. Irish competitiveness was low. Infra-structure (despite the best efforts of the IDA) in many sectors was abysmal. A former director of the IDA told of how they had brought a prospective investor to view a site for a facility by helicopter so that he would not experience the dreadful state of the roads.

In the 1970s and early 1980s, physical geography still played a big role in the international economy, and Ireland's location on the far western periphery of Europe meant that it was just too far away from potential markets. Most of those located there were attracted by Ireland's position as a European Community member. The reliance of the country on external commercial operations made its industrial sector vulnerable to trends in the global business cycle.

Emigration from Ireland increased again in the 1980s, but unlike many of the earlier emigrants, these were often highly educated. Again unlike earlier emigrants, they often returned to Ireland after gaining experience and contacts outside the country. A new self-confidence began to take hold, and with it a new attitude toward the rest of the world. It was no longer a place of exile, but one of opportunity and a source of prosperity.

The fact that the country had missed out on industrialization was increasingly seen as a blessing. It meant that there was no rusting industrial plants and no unemployed workforce born and bred to heavy industry. It also meant that the country's economy could take advantage of new trends beyond its borders in the *global* economy. Ireland could begin from scratch. In the late 1980s, developments in cybertechnology made it clear that jobs and prosperity could come at the end of a telephone line. The potential of Ireland to play a major role in the information technology sector was realized. Greater computer literacy in all sectors of the population was encouraged, and telecommunications infrastructure was enhanced. In 1992, the vision of Ireland as the "e-hub of Europe" emerged. Europe was headed in the direction of a single market, so why could Ireland not find a very profitable niche as the base for telecommunications entry into that market? Ireland already had a large base of young, educated workers who could fulfill investors' labor demands.

The visionary and almost prophetic nature of the e-hub concept is apparent when it is remembered that it was developed in 1992; that is, before the Internet became embedded in the commercial world. In the following chapter, I explain how the global economy began in 1985, and how I date developments according to my own calendar as being either BG (before Gates) or AG (after Gates). So the development of the e-hub occurred relatively early in this chronology, in the year 8 AG!

In Dublin, an extensive section of redundant docklands had been redeveloped since 1987 as a financial services center. This attracted many financial service providers to establish back-room operations. Ireland also became an attractive location for American companies' call centers in Europe. This was accompanied by a significant growth in indigenous software companies.

As we will see, Ireland is lucky; it is a nation-state that is the same size as a *region-state*. It is, therefore, capable of tapping into the dynamism of such a region state. We will see that one of the keys to the success of a region-state is being able to brand itself successfully (such as an "e-hub") and to offer something different that sets it apart from the competition. Ireland has been able to do this very effectively in the customer response management and "back office" sectors. It has also been able to capitalize on its image as a fun place to work, with a vibrant social life and abundant cultural and recreational facilities. Phenomena such as *Riverdance* and the international success of Irish rock groups such as *U2* and *The Corrs* have also played a significant part in the nation's reinvention.

For decades, successive Irish governments expended resources on attempting to resuscitate the native Gaelic language. Although English remained the vernacular of the vast majority, it was felt that the country's right to nationhood was stillborn and defective without a language of its own. But in the new global economy, where English is *the* linguistic platform of communications, the possession of English as a first language is a major advantage for Irish citizens.

Ireland's call centers are able to employ many of Ireland's foreign language graduates, but there are not enough fluent speakers of German, Italian, or Swedish, for example, within Ireland. The country's openness means that native speakers of foreign languages are attracted to it and are welcomed. Greater prosperity has also attracted immigrants from all over the European Union, within which barriers to relocation have been all but cancelled. They have added

their skills to Ireland's economy and helped to make Irish society more varied, colorful, and sensitive to the wider world. Given Ireland's readiness for and commitment to the global economy, it came as little surprise that the country was ranked first in both 2002 and 2003 in the A.T. Kearney/Foreign Policy Globalization Index.⁴

Ireland has many strengths. It has a relatively small but highly educated population. It is situated on the periphery of Europe, yet it is the closest part of Europe to North America. In the economic past, dominated by manufacturing industry and physical constraints on movement, its location was a liability. But in the age of the global economy, physical location is much less important. Without doubt, the greatest advantage it possesses has been its vision of how it can fit into the new and ever-changing economic realities of the twenty-first century. This has enabled Ireland to create more than 300,000 new jobs in the areas of cross-border BPO, CRM, and R&D in just over a decade. Along the way, its time-honored social malaise of unemployment has been eliminated.

A comparison between Ireland and another island nation, New Zealand (actually two separate islands), will be helpful. Both have economies that were traditionally based on farming and processing of agricultural products. Ireland, though, has transformed itself from a country with a largely agricultural basis into a country with a strong ICT base. New Zealand is still very much playing the old game. It believes that deregulation is enough. It isn't anymore. As a result, New Zealand has not been able to come up with new types of industries. Sitting on a base of agriculture and agriculture-related industries, and applying Ronald Reagan-style deregulation, especially under the banner of "Rogernomics," is not good enough. You have to do what the Irish, the Finns, and the Chinese are doing.

Now let us leave the Emerald Isle and fly northward to Scandinavia and to its northeastern extremity, Finland.

Finland: In from the Cold

Finland has long been on the periphery of Europe, but the opposite periphery to Ireland. Where the latter looks out westward upon vast areas of ocean, the people of Finland have been able to look out upon a slightly drier landscape, but one equally hostile: mile after mile of impenetrable forest and frozen tundra broken only by icy lakes and endless, fast-flowing rivers. In fact, Finland was as far from the beaten track of commerce and trade as it was possible to be.

Finland sits on the northeastern shoulder of the Baltic, a sea by name, though almost one big lake. In the distant past, the Baltic was an avenue for primary products such as furs, timber, and amber, but Finland was really too far north to benefit from this. Its harbors have been kept open year-round only by icebreakers. Freezing temperatures bring one blessing. In the winter, some lakes and rivers freeze so hard that it is possible to drive trucks across them, thereby adding seasonally and nearly costless transport to the infrastructure.

Finnish industry has traditionally been based on processing natural resources, especially the abundant woodlands. There is also some high-quality mechanical engineering. But Finnish industry has never been static. Throughout the twentieth century, considerable amounts were spent on R&D, and production was accompanied by constant innovation.

In the last half of the century, the country was sandwiched between the spheres of influence of the rival superpowers: the United States and NATO to the north and west, the Soviet Union and the Warsaw Pact to the east and south. Although its society and government were free and pluralist, everyone in the country (and outside world) recognized that this had to be paid for by a commitment to “neutrality.” *Finlandization* entered the political vocabulary as a term of contempt. No one wanted to be like Finland.

It also developed a Scandinavian-style welfare state, paid for by heavy borrowing and by some of the highest levels of direct and indirect taxation in the world. This also paid for some very high-quality education.

In the midst of this, companies such as Nokia and Sonera (now called TeliaSonera after a merger with the Swedish operator Telia in 2002) developed global trail-blazers in telecommunications. Important developments in software engineering, such as data security specialist, SSH, and the Linux computer operating system (invented by the Finn Linus Torvalds) also emerged.

As a result, Finland has achieved levels of productivity and competitiveness that are the envy of more established economic players. The Geneva-based World Economic Forum declared Finland the most competitive country in the world in 2003, for the second year running.⁵ It came in ahead of the United States and Singapore. It also scored top marks for network connectivity and compatibility, and was deemed the most responsive to IT and e-business opportunities.

How has an isolated high-tax country turned the economic tide? First, the country has always recognized that its prosperity lies in looking outward toward the rest of the world. This has been something of a curse in the manufacturing-dominated past. With few mineral resources, the country was vulnerable to oscillations in energy prices. Finland was also one of the few regions outside the old Soviet bloc to shed a tear, albeit perhaps a crocodile one, for the demise of the Soviet Union. The USSR was one of Finland's most important trading partners. Cross-border visits contributed to the Finnish tourism sector. The breakup of the communist giant meant that Finnish balance of payment figures suffered a considerable drop. Finland faced an international environment shorn of old certainties and a domestic economy that showed all the signs of being in terminal decline. The Finns are a resourceful nation, and with resolution they realized that salvation could come only through openness to the rest of the world.

In addition to being outward looking, the level of Finnish education is very high. As in other parts of Scandinavia, proficiency in English is extensive, but with the Finns such linguistic skill is a necessity. The Finns are proud of their vernacular Finnish, but they are wise enough to know that only Finns (and Estonians) can learn it. It is a very complex language, unrelated to Indo-European languages such as Swedish and Russian. Few foreigners are brave enough to acquire even a basic competence. The Finns have long been compelled to communicate with the rest of the world by means of the linguistic platform of English. Knowledge of English is necessary for advancing in education; after all, not many English and American high school and college textbooks are translated into Finnish. English is the language of top-level management meetings in companies such as Nokia (Finland's largest company). English is viewed not as a threat, but as an opportunity. English instruction starts early in Finnish schools, and, increasingly, many subjects are taught *through* English. This is one of the reasons Finnish universities have exceptionally large contingents of foreign students.

Outward looking and English speaking, Finnish leaders and managers acquire an international and global outlook almost by default. Top management in Finland's corporate sector is also broad-minded and seeks to acquire and use the best talents wherever they come from. For example, two of Nokia's top directors are Norwegian and American. The Finnish stock exchange is operated by a Swedish company, OM.

The final ingredient in the Finnish success story is an appetite for technology. The Internet was adopted with gusto in the mid-1990s. Every local government department and tourism office acquired a Web presence at an early stage. Most Web pages are in Finnish, but they nearly all have English translations on another part of the site. Browser terminals have been provided in all schools, public libraries, and many other public places. In 2002, Finland had one of the highest Internet connection rates in the world: 230 connections per 1,000 people. More people were online in percentage terms than in any other country—1.5 million people out of a 5 million population used the Web on at least five days in the week.

Finland has a propensity for being at the top of league tables (see Exhibit 1.1). It holds the number one spot for cell phone usage. At the end of 2002, more than 87 percent of Finns had a mobile phone. This far exceeded land lines, but this was not surprising in the home of Nokia, which currently holds a third of global market share. Although the company is proud of its Finnish roots and Finnish headquarters, it also knows that its domestic market accounts for less than 1 percent of its global sales.

Nokia did not attain its global position by accident. Nokia traces its origins back to a lumber firm set up in southwest Finland in the mid-nineteenth century. In the 1970s, it provided communications systems for the state railways and Finnish armed forces. In the next decade, it switched to consumer electronics and suffered a severe beating from Japanese competition. Indeed, the company almost went bankrupt in the early 1990s. But through innovation and the pursuit of aggressive R&D strategies, it has come back from the brink. It does not rest on its laurels. In 1994, Nokia's CEO, Jorma Ollila, made a truly historical decision: Nokia's future was to be in mobile telecommunications. From that year, the company has unsentimentally pursued success in this market. It has divested itself of involvement in the many other areas in which it was involved.

Growth Competitiveness Ranking		IMD World Competitiveness	
2003		Scoreboard 2004	
1	Finland	1	United States
2	United States	2	Singapore
3	Sweden	3	Canada
4	Denmark	4	Australia
5	Taiwan	5	Iceland
6	Singapore	6	Hong Kong
7	Switzerland	7	Denmark
8	Iceland	8	Finland
9	Norway	9	Luxembourg
10	Australia	10	Ireland
11	Japan	11	Sweden
12	Canada		
13	Netherlands		
14	Germany	22	United Kingdom
15	New Zealand	23	Japan
		24	China

Source: World Economic Forum.

Source: IMD.

Exhibit 1.1 Competitiveness rankings.

Finland has realized the benefits of a knowledge-based economy. Much of this grew out of an existing commitment to innovation. When problems arise, they have to be solved. Solutions can then be marketed abroad.

Finns have always been realists. They know that they cannot hide in their forested country at the top of Europe: They have to be participants. They have shown that full-blooded participation in the global economy can change a nation's place in the world and prove that the rest of the world is not a place to be feared. This openness to the global economy has encouraged investors, such as American pension funds, to buy Finnish corporate stocks. Today, more than 60 percent of Finnish equity is held by foreigners. As Finnish companies aggressively master the global stage, students and tourists flock to the land of Suomi.

Finland is not alone in Scandinavia in embracing the global economy, especially through the conduit of technology. Neighboring Sweden is the home of Ericsson, also a leader in the provision of mobile technology and the development of many technical platforms.

What Is the Global Economy?

What are the characteristics of this new global economy relished in places as diverse as Dalian, Dublin, and Helsinki? Terminology is always an inexact science. Every term is a linguistic sieve. So, before attempting to define it, let's just say at the outset what the global economy is not.

What can be said is that the global economy should be differentiated from the notion of the "new economy" that sprang up in the late 1990s. This trumpeted a brave new economic order based on the fantastic technological advances unleashed through the Internet. It was a model that mistakenly saw a parallel and unstoppable rise in productivity. The wheels fell off this conceptual wagon in April 2000 with the sudden decline in technology stocks.

Apart from its manifest intellectual weaknesses, this "new economy" has very little in common with what we will talk about. The global economy is based on a world in which borderlessness is no longer a dream or an option, but a reality. This has been helped by the cyber-revolution, but it is not the same phenomenon as the cyber-revolution itself. Multiples of stock values, as well as derivatives and financially engineered products, also matter far more in the global economy.

The global economy has its own dynamic and its own logic. It is no longer theory; it is reality. It is going to grow stronger rather than weaker. It will feed on its own strengths. It is irresistible, and it is destined to have an impact on everybody—businessmen, politicians, and bureaucrats, but, most important, ordinary citizens. There is no use complaining about it or wishing it to go away. People will have to learn to live with it.

The emphasis here is on learning because success and even survival depend on acquiring novel outlooks and relationships with the rest of the world. This book hopefully goes somewhat toward pointing a route toward these new outlooks and relationships.

Some people and countries might be determined to fight against the reality of the global economy, using the old mind maps and the old paradigms. However, the cost in economic and especially human terms will be enormous. Progress is as inevitable as death and taxes.

Traditional nation-states and national governments face a great challenge. Some seem to want to approach this new world with one foot stuck stubbornly in the shore of the past for support while they gingerly test the water with the toes on the other.

Some are better placed to take advantage of the global economy's opportunities. History favored the United States by providing it with a truly federal form of government. As a result, states such as North and South Carolina, known as the Carolinas, can pursue an innovative economic agenda without risk of being stymied by central government. The battles between state and center have been fought over and resolved. The constituent states are each well placed to take advantage of the global economy. This does not mean that all 50 states do so. Some still seem to be wedded to a past based on Canute-like protection of "strategic" economic sectors.

Other federal states in the world do not allow their constituent members anything like real autonomy, and the central government maintains a tight rein on regional developments. Examples include India and Brazil, two of the BRICs (Brazil, Russia, India, and China), according to Goldman Sach's new jargon of promising new economies. In terms of the global economy, these nations are still asleep as a whole nation. Nevertheless, some of their regions have begun to take their places on the global stage. China adopts a somewhat schizophrenic policy; in theory, it follows a rigid, centralized political formula. In practice, unprecedented economic autonomy has been allowed to regions and cities, particularly since Zhu Rongji's reform of 1998.

But at the opposite extreme, there are states such as Japan, Russia, and Indonesia, which maintain centrality of decision making in theory *and* practice. No region succeeds because no region is permitted to succeed independently of the rest of the state. Their central governments are jealous of allowing any directional role to escape the center. They are swimming against a tide that could yet inundate them. Of the BRICs, only China has the governance structure to help its regions to work interactively with the global economy. Others have a long way to go before their central government really wakes up to the calls of the rest of the world.

The task of describing what this new world *is* may be difficult. If all the news stories and clippings about globalization are assembled, the integrated picture that emerges is distorted. Not all the components fit neatly together; it is a wild, abstract mosaic rather than a jigsaw.

But let us forget the scare stories and the merchants of bad news, and instead try and see what we can say positively and with certainty about the characteristics of the global economy: It has innate characteristics, which I list in no order of importance.

Borderless

First, as I have long argued, national borders are far less constrictive than they once were. Some of this has been thanks to technology, while some has been the result of international and bilateral agreements, especially in the area of trade. The world is an increasingly borderless place. Tariffs are evaporating as countries realize they need each other to survive economically.

It is not yet completely border free, as nation-states still have reasons to maintain controls on the movement of people and goods in the interest of security and public safety. But in terms of four key factors of business life, the world has already attained the position of being effectively without borders. These business factors I have labeled the four C's: communications, capital, corporations, and consumers.⁶

Effective **communications** always depend on the nonexistence of borders. It was one thing when communication was predominantly physical. If a person wanted to go from A to B or send something there, be it a letter or a product, the inert force of gravity often slowed the process down. Slowness of movement was further added to by border checkpoints, the need for visas, and passport control, not to mention custom and excise inspection. People viewed these as obstacles and deterrents. But technology spurred an improvement. Telephone lines allowed a person to speak with someone directly on the other side of the world, without having to go through a host of intermediate exchanges. Once such lines of telecommunication, existed they could be used for data transfer. Improvements also occurred in the production of cables using fiber-optic technology. A barrier to communications remained while the conduits of this communication still had to pass along wires, which, in turn, had to be laid across mountains or oceans. The latest technological advances do away with wires and their costly installation and maintenance. When data is carried by radio frequencies, it is absurd to believe that lines drawn on maps can have any impact on its movements.

Telecommunication benefited from a process of deregulation in the 1980s, and many former state monopolies were privatized, thereby increasing competition and lowering costs for consumers.

Domestic markets that had formerly been imprisoned in the clutches of national communications monopolies were opened up. Many communications companies co-operated and entered into alliances; others merged so that the telecommunications world was changed from a patchwork of state monopolies into a far more dynamic and colorful kaleidoscope that did not respect national borders. Many telecom operators, including TeliaSonera, Vodafone, and Telefonica, have become truly global.

Yet it was the development of the Internet from the mid-1990s onward that has probably had the greatest impact on making the world of communications truly borderless. This is a technology that is widely available, accessible from personal computers anywhere. Traffic passes through it oblivious of borders.

The second C, **capital**, is also a beneficiary of a borderless world. This, too, has been aided by deregulation of financial markets. It has also been assisted by the position of the U.S. dollar as a monetary platform. Not only is it the major trading and settlement currency, but it is also the currency of choice for many savers throughout the world. In most developed countries, the aging population save money for their retirement. The trouble is that no OECD member country offers adequate returns for an investment at home. This is one of the biggest reasons why a massive cross-border migration of capital, both short and long term, has occurred.

Some **corporations** have successfully responded to the borderless economy by shedding the trappings of the nation-state that hindered their self-awareness. It was far too common in the past for a successful corporation to identify closely with a “home base,” a company headquarters, or a corporate “home town, where it all began.” Some of this might have been sentimental, but it was outdated if the corporation saw the world as its marketplace. Improvements in telecommunications mean that companies do not feel tied down to a corporate headquarters in a certain city. If circumstances demand it, they might even dispense with legal ties to their home bases by reregistering in another, more favorable location.

The last two decades have seen a remarkable decomposition of corporate functions, ranging from R&D and manufacturing to sales/marketing and financing. It is now common within an individual company for these functions to be located across national borders—for example, R&D in Switzerland, engineering in India, manufacturing in China, financing in London, while the marketing function and HQ remain in the United States. More recently, indirect work has

been outsourced: Witness the growth in call centers in India and elsewhere, and the outsourcing of logistics to specialists such as FedEx, DHL, and UPS.

It is in terms of the last C, **consumers**, that the borderless element of the global economy has made itself felt most keenly. Consumers have the ability to do what they have been urged to do many times: shop around. The Internet gives consumers the ability to compare products and prices and make a much more informed choice more easily. Platforms for paying by credit card then allow the purchase to be made, processed, and delivered. There might still be some who are emotionally tied to the ideal of the nation-state, who support demagogues seeking greater protection of domestic businesses and jobs, but when they are presented with a choice of two similar products, one (product A) available locally at a price considerably higher than product B, which originates elsewhere and still enjoys a price advantage when delivery charges are added on, only the most die-hard partisan of the nation-state will opt for the pricey product A. The reality is that it is almost impossible to buy a shirt that is genuinely “Made in America.” Its fabric may come from Egypt, threads from Japan, and buttons from the Philippines. If only the sewing process takes place in the United States, how American does that make the finished shirt?

Invisible

Observers might be forgiven for not fully realizing the potency and prevalence of the global economy. It is largely invisible. It might be better said that it is not totally visible to the naked eye. This should not be taken as implying that it is secretive or reclusive. It is because the actions that it performs often take place not on the streets or the debating chambers of national parliaments, but on computer terminals. One of the mechanisms whose development has enabled speedy cash transfer is a piece of plastic: the credit card. It is the preferred means of carrying and spending money for hundreds of millions of consumers. Yet the money that credit-card holders spend is never seen. Sometimes, payment occurs so quickly that not even the most sophisticated camera with an incredibly high shutter speed could record it.

Some of the most important developments are earth-shaking in their potential, but their implications are not fully understood outside of a small circle of players. As a result, they are not headline

news; they are lucky to feature in the news at all. As for the print media, they may be buried rather inconspicuously in the business pages.

Consider a few aspects of this invisible world. Transactions and settlements of money now take place mostly on and through computers. Some products are also purchased in the plaza known as B2B and B2C trade exchanges, or as C2C auctions. Most ATMs around the world spit out local currency if you use your home country cash/credit card with Plus or Cirrus membership. There is no way for the government to know how much cash you have withdrawn abroad or how much you have spent with a credit card to purchase goods and services across national borders.

Cyber-Connected

The global economy would not be possible, or even comprehensible, without cybertechnology allowing large amounts of data to be transferred incredibly quickly. It would not be possible without the corresponding drop in technology prices. The Internet is only the most public part of this. Today, the Internet protocol (IP) is capable of handling transmission of not only data, but also images, voice, music, and videos. Voice over IP (VoIP) is rapidly making inroads into the world of traditional telecom providers, but music and movies are also downloaded across national borders, as long as there is a line with IP routers. Everything and everyone connects.

Outsourcing, for example, rests on the capability to model new processes and instantly deliver critical software components, all within minutes of a conversation. The success of Indian software houses, such as Infosys, WiPro, HCL, Tata Information Services, and others, underscores the fact that 24x7 development is no longer a wish, but a reality.

Measured in Multiples

Money makes the world go around. And so the role of money in a global economy must be important. Money is no longer seen only as a unit of value in the short term. The late 1990s and the first years of the new century have witnessed a number of corporate takeovers and restructurings that would have been viewed as surreal two decades earlier: In these, a company that had only recently emerged and maybe was not actually profitable successfully acquired a much larger,

longer-established, and seemingly solid part of the corporate landscape. None of this was possible without those who assess corporate value looking at a far bigger picture, not one based on the here and now alone and the currently quoted price on whatever share index they chose, but on what the situation was likely to be in 10 or 20 years, and on how this was reflected in price/earnings ratios.

Multiples are signs given to the management by the shareholders to shoot at the business opportunities on the horizon. If the management does nothing other than business as usual, the multiple will come down, reflecting the disappointment of the ammunition givers. Multiples are fictitious, in that they often do not reflect corporate value, but they express an expectation. This can become reality if a company is bought or a new investment is made to fully utilize the multiples.

So the global economy is borderless, invisible, cyberconnected, and measured in multiples. Many of these elements are self-nurturing: They feed off one another. They all involve taking a leap, if only an intellectual leap at first, into uncharted waters.

This global economy is in its infancy. Unfortunately, this description contains an analogy with human development, from the state of the infant, the child, and the uninformed. It might be better to say that the global economy is in the early stages of development, but there is nothing childlike or uninformed about it. It has not emerged like an extraterrestrial from on board a meteorite. It has entered the world through the actions and intellect of human beings. It has not been foisted onto the world by some small, nefarious network intent on world domination. It has developed collectively. And, as we will see, it promises to be beneficial to the world at large.

The excessive capital in developed countries is looking for opportunities to breed. If you understand the logic of the global economy, you can attract companies, customers, and capital to your region or company from the rest of the world. You do not have to be born rich or be born in a wealthy country to prosper. All four C's can and will come to you if you have the right recipe. Alternatively, if your logic and systems are out of sync with the global economy, the four C's will evaporate, and you will not have an opportunity to perform on the global stage.

To reap the benefits of the global economy, join me to better understand how the plot unfolds. Let us begin with the opening night.

Notes

- ¹ *Riverdance in China*, documentary broadcast by Raidio Telefís Eirinn channel 1, 9 April 2004.
- ² William Shakespeare, *As You Like It*, 2.7. 139–140.
- ³ “China’s GDP Expects to Exceed 11 Trillion Yuan,” *People’s Daily*, 27 November 2003, www.nationmaster.com.
- ⁴ www.atkearney.com.
- ⁵ www.weforum.org.
- ⁶ The concept of the four C’s was first explored in my book, *The End of the Nation State* (New York: Simon & Schuster, 1994).

INDEX

A

ABB, 217
abstracting, BPO of, 161
accounting services, BPO of, 163
adaptability. *See* flexibility
advertisements
 newspaper advertisements, 174
 on search engines, 174, 177
Africa, negative effect of nation-states,
 88, 92
African Financial Community (CFA), 120
African Union, 120
Agfa, 228, 269
aggregate demand. *See* GDP
agricultural subsidies in Japan, 67-71
Air Campus, 208-209
All Nippon Airways, 179
AM-PM Japan, 179
Amazon, 43, 129, 145, 178, 259
antidumping measures (European
 Community), 122
AOL, 173, 178
APEC, 119-120
Apple, 43, 231
architects, BPO of, 163
ASEA, 217
ASEAN, 119
Asia. *See also names of specific countries*
 China's economic power in, 100
 rise of nation-states, 85-86

Astra, 217
Astra Zeneca, 217
ATM, as platform, 141
attractiveness (characteristics of
 region-states), 95
Australia, influence of U.S. dollar on, 57
Autoliv, 219
automobile production statistics, 168
autonomy of China's region-states, 102-103

B

Baltic region (global economy example),
 262-263
Bangalore (India) example, 255
banking industry, technological
 breakthroughs, xx-xxi
Barclays' Bank, 169
Barnum, P. T., 71
Bentsen, Lloyd, 166
Berners-Lee, Timothy, 42
Bezos, Jeff, 129
Bharatiya Janata Party (BJP), 153
Bhattacharjee, Buddhabev, 153
bilateral free trade agreements, 121
bilingualism, 136
bitWallet, 178
BJP (Bharatiya Janata Party), 153
Blix, Hans, 219
Bloomberg, Michael, 7
Bo Xilai, 7-8, 211, 239

Bodin, Jean, 82
 Bohemian Glass, 108
 Bohr, Niels, 58
 Bond University (Australia), 208
 bonds and economic models, 47-48
 borderless (global economy characteristic), 20-22, 246-247
 BPO (business process outsourcing), 145-148
 advantages of, 170-171
 in borderless world, 172
 in Brazil, 157
 in Central America, 157
 in China, 157-159
 concerns about, 164-170
 in Europe, 159
 home offices of call center workers, 163-164
 in India, 149-157
 in Ireland, 159
 in Netherlands, 159
 in Philippines, 157-158
 as platform, 161-163
 telecommunications, importance of, 148-149
 brands. *See also* marketing
 in niche markets, 105-106
 as platforms, 138-140
 Brazil
 BPO in, 157
 São Paulo example, 266-267
 Bretton Woods agreement, 137
 Brezhnev, Leonid, 29
 BRICs (Brazil, Russia, India, China), 19
 British Columbia (Canada) example, 259-260
 budget deficits, Gramm-Rudman Act, 33-35
 bureaucracy
 in China, 38
 and wealth distribution by governments, 198-199
 Bush, George H. W., 35, 168
 Bush, George W., 74
 business process outsourcing. *See* BPO
 business systems, innovation in, 248
 Butler, Jeanne, 4
 buymusic.com, 231

C

Cable News Network (CNN), 134
 calendar, dating systems, 27-28
 call centers
 BPO
 in China, 158-159
 in India, 149-150
 in Philippines, 158
 home office workers in, 163-164
 Canada, Vancouver (city) example, 259-260

Canon, 227
 capital and borderless society, 21
 capital movement, effect of data-transfer technology on, xxvi
 capitalism in China, 40-42
 Cardin, Pierre, 105-106
 Cardo, 219
 careers, changing, 238
 Caribbean nations, currencies of, 120
 Carter, Jimmy, 102
 case studies, use of, 245
 cashless society. *See* payment systems
 Caterpillar, 238
 causality and economic models, 46-47
 Central America, BPO in, 157
 central governments. *See* governments
 CFA (African Financial Community), 120
 change. *See* organizational future;
 personal future; technological
 future; vision for change
 chaos theory. *See* complexity theory
 China
 BPO in, 157-159
 comparison with India, 152
 Dalian (city) example, 6-10
 characteristics of region-states, 96
 economic reforms in, 37-42
 economic statistics, 9
 English language instruction in, 135-136
 GDP, 41-41, 89
 governmental policies, 211-213
 Hainan Island (city) example, 256-257
 microregions in, 103-104
 per-capita income statistics, 99
 region-states in, 98-103
 Riverdance performed in, 3, 5
 trade with Korea, 86
 Windows Chinese version, 36
 Chinon, 236
 Choi Joon Kyung, 64
 Cisco Systems, 44, 214, 238, 243, 248, 253
 Citibank, xx-xxi, 145
 Clinton, Bill, 46, 71-73, 102
 clusters. *See* microregions
 CNN (Cable News Network), 134
 Coca-Cola, 268
 Common Agricultural Policy, 121
 communications and borderless society, 20-21. *See also*
 telecommunications
 communications platforms. *See* platforms
 communism, collapse of Soviet Union, 28-30
 Communist Party of India (Marxist), 153
 companies, defining, 269-271
 competition of microregions, 107-109
 competitors, defining, 269-271
 complexity theory, 58-61

computer usage, rise of Windows
 operating system, 35-37
 concerns about BPO, 164-170
 concurrent engineering, 238
 confidentiality of data (concerns about BPO), 170
 consumers and borderless society, 22
 cool chains (fresh food delivery), 185-186
 corporate future. *See* organizational future
 corporations and borderless society, 21-22
 corrupt government. *See* government corruption
 Cotonou Agreement, 122
 CPI-M (Communist Party of India (Marxist)), 153
 credit cards, as platform, 142
 creditworthiness, verifying, 180
 cross-border alliances, xix-xx
 cross-border outsourcing. *See* BPO (business process outsourcing)
 currencies. *See also* exchange rates
 of African Union, 120
 of ASEAN nations, 119
 of Caribbean nations, 120
 dollar (U.S.). *See* dollar (U.S.)
 euro, 117-119
 of Latin America, 121
 strength of, 90
 and trade deficits, 30-33
 customer interface, innovation in, 249
 customer relations, importance of, 245
 customers, defining, 269-271
 cyber-connected (global economy characteristic), 23
 cyberites, rules of Internet behavior, 175-177
 Capek, Karel, 207

D
 Dalian (China) example, 6-10
 characteristics of region-states, 96
 Danisco, 77
 data confidentiality (concerns about BPO), 170
 data-transfer technology, effect on money, xxvi
 dating systems, 27-28
 death of industries and technological future, 225-232
 Debit with Float system, 180
 decentralization in China, 40
 deficits. *See* budget deficits
 deflation
 and GDP deflators, 56
 inflation as solution to, 55
 Dell Computers, 44, 47, 98, 166, 181-182, 205, 243, 248, 253, 270-271
 Dell, Michael, 44, 77, 98, 202, 243
 Deloitte Touche Tohmatsu, 213

Deng Xiaoping, 7, 37, 212
 designers, BPO of, 163
 Deutsche Mark, value in relation to dollar (U.S.), 31
 Deutsche Poste, 188
 DHL, 22, 182, 188
 digital camera industry, 225-228
 Disney, 268
 distance learning, 208-210
 distribution, logistics industry
 fresh food delivery, 185-186
 just-in-time supply chain management, 180-183
 mu tags, 183-185
 distributive governments. *See* wealth distribution by governments
 Dobbs, Lou, 168
 DoCoMo, 178
 dollar (U.S.)
 as currency platform, 137-138
 value in relation to yen, 30-33
 versus euro, 118-119
 doshu, 267
 downsizing governments, 199-200
 dumping, antidumping measures (European Community), 122
 DVD industry, 229

E
 e-commerce
 Internet behavior. *See* Internet behavior
 payment systems, 178-180
 rise of, 42-44
 search engines. *See* search engines
 e-wallets. *See* payment systems
 East Japan Railway Co., 179
 East Siberia (Russia) example, 266
 eBay, 43, 237
 ebookers (travel company), 146
 economic models
 agricultural subsidies in Japan, 67-71
 characteristics of new economy, 75-77
 effect of technology on, 53-54
 exchange rates. *See* exchange rates and GDP deflators, 56
 and interest rates, 57-58
 Keynes, John Maynard, 50-53
 and money supply, 54-56, 61-62
 Ricardo, David, 50
 Smith, Adam, 49-50
 twentieth century versus global economy models, 45-49
 United States' economic policies, 71-75
 economic reforms in China, 37-42
 economic statistics
 China, 9, 41-42, 99
 GDP and GNP of nation-states, 88-90
 Japanese region-states, 93
 supply/pricing curve, 90
 economics and nation-states, 82

education
 distance learning, 208-210
 importance for leaders, 241-243
 in India, 155-156
 role of government in, 206-210
 educational facilities, characteristics of
 region-states, 94
 EDY (euro-dollar-yen) technology,
 178-179
 EEC (European Economic
 Community), 115
 Einstein, Albert, 58
 Electrolux, 217
 employment practices, innovation in, 250
 empowering individuals, 202
 Engels, Friedrich, 41
 English language, as platform, 132-136
 Enron, 225
 equilibrium. *See* financial equilibrium
 theory
 Ericsson, 18, 214, 217, 248, 270
 Estonia (global economy example),
 260-261
 EU. *See* European Community
 Euler, Leonhard, 263
 euro, 117-119
 Europe. *See also names of specific
 countries*
 BPO in, 159
 rise of nation-states, 83
 European Community, 115-121
 European Community Law, 115
 European Economic Community
 (EEC), 115
 exchange rates
 China, 213
 financial equilibrium theory, 65
 political paradigm, 65-66
 PPP (Purchase Power Parity), 62-65
 trader's paradigm, 66-67
 Expedia, 259
 exploitation (concerns about BPO), 164
 exports. *See* imports and exports

F

fashion industry, Italian region-states,
 106-107
 FDI (foreign direct investment),
 statistics, 197
 Federal Express, 22, 181-182, 188
 federal nations
 advantages as region-states, 102
 autonomy in global economy, 19
 FedEx Trade Networks, 183
 Feigenbaum, Mitchell, 59
 Fiat, 108
 financial equilibrium theory, 65
 Finland
 global economy example, 13-17
 will to succeed, 114

Finlandization, 14
 Flatley, Michael, 4
 flexibility
 in government, 198
 importance
 for corporations, 250-251
 for leaders, 243-244
 of microregions, 106-107
 of region-states, 113
 Flextronics, 216
 fluency in languages, 136
 Foimamco, 167
 food delivery, 185-186
 food production, importing land for,
 188-190
 foreign direct investment (FDI),
 statistics, 197
 foreign reserves statistics, 48
 France, Plaza Accord, 30
 free trade versus trade restrictions,
 121-123
 free trade areas
 African Union, 120
 APEC, 119-120
 European Community, 115-119
 in Latin America, 121
 freight, statistics, 180
 fresh food delivery, 185-186
 Friedman, Milton, 46
 Fuji, 228, 236, 269
 Fujitsu, 214, 221
 Fukuyama, Francis, 203
 funny money and economic models,
 47-48

G

Gambro, 219
 Gates, Bill, 35-37, 42, 202, 247
 Gateway Computers, 181, 270
 GDP (gross domestic product), 88-90
 China, 41-42
 deflators, 56
 General Electric (GE), 145, 152, 168,
 205, 244, 251-254
 General Motors, 212
 geography. *See* nation-states; region-states
 Germany. *See* West Germany
glasnost, 28
 global business culture, as platform,
 140-141
 global economy
 Baltic region example, 262-263
 characteristics of
 borderless, 20-22
 cyber-connected, 23
 invisible, 22-23
 multiples measurement, 23-24
 comparison with new economy, 18
 Dalian (China) example, 6-10
 defined, 18-20

East Siberia (Russia) example, 266
 Estonia example, 260-261
 Finland example, 13-17
 Hainan Island (China) example, 256-257
 Ho Chi Minh City (Vietnam) example, 263-265
 India example, 255-256
 Ireland example, 10-13
 Kyushu (Japan) example, 267-268
 Petropavlosk-Kamchatsily (Russia) example, 258-259
 São Paulo (Brazil) example, 266-267
 stage metaphor, 5-6
 Vancouver (British Columbia) example, 259-260
 global positioning satellites. *See* GPS
 globalization, defined, 122-123
 glocalization, xxi
 GNP (gross national product), 88-90
Go West (television program), 135
 Gold Standard, 137
 Google, 174-175, 244, 249
 Gorbachev, Mikhail, 28-30
 government corruption in China, 38
 government structure, effect on global economy, 19
 governments
 China, 211-213
 downsizing, 199-200
 India, 152-155
 Ireland, 220-221
 Malaysia, 213-214
 power of, 193-196
 Singapore, 214-217
 Sweden, 217-220
 vision for change. *See* vision for change
 wealth distribution, 196-199
 GPS, as platform, 142-144
 Gramm, Phil, 33
 Gramm-Rudman Act, 33-35
 Great Hall of the People (China), *Riverdance* performed in, 3, 5
 Greenspan, Alan, 46, 71-74
 gross domestic product. *See* GDP
 gross national product. *See* GNP
 Group of Five, Plaza Accord, 30

H

H&M (Hennes and Mauritz), 217
 Haier, 39, 140
 Hainan Island (China) example, 256-257
 Hammerskjöld, Dag, 219
 Hans Ten Vos, 259
 Hayek, Friedrich, 46
 Hayes, Conor, 4
 HCL, 23
 Heisenberg, Werner, 58
 hierarchy in corporations, 251-254
 Hino, 221

Hitachi, 185, 234
 Hitler, Adolf, 51
 Ho Chi Minh City (Vietnam) example, 263-265
 Hollings, Ernest, 34
 Holy Roman Empire, 83
 home office workers in call centers, 163-164
 Honda, 168
 HP, 168, 270
 Hudgins, Zach, 165
 Hyderabad (India) example, 256
 Hyundai, 86

I

i-Tunes, 231
 Iacocca, Lee, 31
 IBM, 168, 268, 270
 IDA (Industrial Development Authority) (Ireland), 11, 220
 IKEA, 217
 imagination and strategy, 271-272
 importing land for food production, 188-190
 imports and exports, Plaza Accord, 30-33
 indexing, BPO of, 161
 India
 BPO in, 149-157
 comparison with China, 152
 global economy example, 255-256
 region-states in, 96-97
 telecommunications infrastructure, 148-149
 Inditex, 47, 106, 108, 182
 individuals, empowering, 202
 Indonesia, intellectual property laws, 126
 industrial death and technological future, 225-232
 Industrial Development Authority (IDA) (Ireland), 11, 220
 inflation
 as solution to deflation, 55
 and unemployment, 62
 information technology, advances in, xxv-xxvi
 Infosys, 23, 256
 innovation, importance of
 for corporations, 247-250
 for leaders, 241-243
 intellectual property laws, 126
 interest rates
 and causality, 46-47
 effect on savings, 57-58
 and United States economic policies, 71-75
 Internet
 rise of e-commerce, 42-44
 rules of behavior, 175-177
 as technological platform, 128-130
 usage statistics, 43

Internet Explorer, rise of, 36
 Interwise, 208
 inventory and economic models, 55
 invisible (global economy characteristic), 22-23
 Ireland
 BPO in, 159
 comparison with New Zealand, 13
 global economy example, 10-13
 governmental policies, 220-221
 telecommunications infrastructure, 149
 Ishihara, Shintaro, 7
 Italy, microregions in, 104-107
 Ivrea, 108

J

J-Phone, 228
 Japan
 agricultural subsidies, 67-71
 economic statistics of region-states, 93
 Kyushu example, 267-268
 Plaza Accord, 30-33
 power of central government, 194-196
 rice production, 188-189
 value-added trade, 201-202
 Jesus Christ, 27
 Jiang Zemin, 212
 jobs, loss of (concerns about BPO), 164-169
 Jobs, Steve, 43, 231
 just-in-time supply chain management, 180-183

K

Kaliningrad (global economy example), 263
 Kant, Immanuel, 263
Karaoke Capitalism (Ridderstrale and Nordstrom), 250
 KDDI, 178
 Keynes, John Maynard, 46, 50-53, 57, 61, 84
 Khabarovsk (Russia) example, 266
 Khrushchev, Nikita, 29
 King, Martin Luther, 204
 knowledge, importance of, xxvii. *See also* education
 Kodak, 228, 236, 269-270
 Koizumi, Junichiro, 68, 197
 Komica, 228
 Korea
 English language instruction in, 136
 rise of nation-states, 85-86
 trade with China, 86
kosoryoku, 271-272
 Krugman, Paul, 55
 Kyushu (Japan) example, 267-268

L

land, importing for food production, 188-190
 language
 Finland, 15
 Ireland, 12
 as platform, 132-136
 Latin America
 organizations of region-states, 121
 rise of nation-states, 85
 leadership, 239-241
 flexibility, importance of, 243-244
 knowledge and innovation, importance of, 241-243
 learning. *See* education
 LEC (Logistic and Electronic Commerce) division, 183
 Lee Kuan Yew, 203, 215-216, 240
 legal BPO, 162
 Legend, 39, 140
 Lehman Brothers, 167
 Lenin, Vladimir, 29
 Lenovo, 39, 140
 Lewinsky, Monica, 72
 Li Peng, 38
 Li Yang, 135
 lifestyle, improving, 238
 Linux, 14
 List, Friedrich, 84
 lister.com, 231
 literacy in India, 155-156
 Livingstone, Ken, 7
 Logistic and Electronic Commerce (LEC) division, 183
 logistics industry
 fresh food delivery, 185-186
 importing land for food production, 188-190
 just-in-time supply chain management, 180-183
 mu tags, 183-185
 postal services, 187-188
 Lomé Convention, 121
 Lufthansa, 161

M

Mahathir Mohamad, 214
 Malaysia
 governmental policies, 213-214
 intellectual property laws, 126
 Mango, 106
 Mao Zedong, 3, 38, 239
 Maritime (Primorye) province (Russia) example, 266
 marketing of region-states, 113-114
 Marshall, Alfred, 55, 61, 258
 medical BPO, 162
 MEQRs (Measures Equivalent to Quantitative Restrictions), 116

mercantilist system, 83-84
 micro tags. *See* mu tags
 microregions, 103-106
 competition, 107-109
 flexibility of, 106-107
 Microsoft, 174, 212, 214, 243, 247, 259, 270. *See also* Windows operating system
The Mind of the Strategist, 269
 Mitsubishi Heavy Industry, 234
 Miura, Yuichiro, 246
 Mohamed (prophet), 27
 Mondex, 178
 monetary policy. *See* economic models
 money, effect of data-transfer technology on, xxvi. *See also* currencies
 money supply and economic models, 54-56, 61-62
 Morgan-Stanley, 19
 Morita, Akio xxi
 motivation of region-states, 114-115
 Motorola, 152, 168
 MS-DOS operating system, 36
 MSC (Multimedia Super Corridor), 214
 MSN, 173, 178
 MTS, 231
 mu tags, 183-185
 Multimedia Super Corridor (MSC), 214
 multiples measurement (global economy characteristic), 23-24
 Murti, Narayan, 256
 music distribution, 231-232
 Music Match Downloads, 231

N

Naidu, Chandrababu, 154, 256
 Napster, 231
 nation-states
 borderlessness of global economy, 246-247
 and economics, 82
 GDP and GNP statistics, 88-90
 negative effect of, 87-92
 region-states' relationship with, 110-111
 rise of, 82-86
 supply/pricing curve, 90
 undermining by region-states, 92
 National Computer Board (Singapore), 215
 National Congress Party (India), 154
 national currencies. *See* currencies
 nationalism, 85
 NEC, 235, 268
 NEG-Micon, 77
 nest eggs. *See* savings
 Netherlands, BPO in, 159
 netians. *See* cyberites

new economy
 characteristics of, 75-77
 versus global economy, 18
 versus old economy, 45-49, 53-54, 58-61
 New Oriental Language School, 135
 New Zealand, comparison with Ireland, 13
 newspaper advertisements, 174
 Newton, Isaac, 58
 niche markets, brands in, 105-106
 niche production. *See* microregions
 Nike, 265, 268
1984 (Orwell), 44
 Nokia, 14-16, 77, 134, 214, 247
 Nordstrom, Kjell, 250
 Noritake, 221
 NTT, 214
 NTT DoCoMo, 178

O

O'Rourke, Mary, 221
 OECD (Organization for Economic Cooperation and Development), 88
 Oki, 268
 old economy versus new economy, 45-49, 53-54, 58-61
 Olilla, Jorma, 202
 Olivetti, 108
 Ollila, Jorma, 16
 OM, 15, 217, 248
 Omron, 180
 online retail business. *See* e-commerce
 openness to outside world (characteristics of region-states), 94
 operating systems
 MS-DOS, 36
 Windows, 35-37, 131
 Organization for Economic Cooperation and Development (OECD), 88
 Organization of African Unity, 120
 organizational future, 223, 244-246
 adaptability, importance of, 250-251
 borderlessness of global economy, 246-247
 hierarchy, lack of, 251-254
 innovation, importance of, 247-250
 organizations of region-states
 African Union, 120
 APEC, 119-120
 European Community, 115-119
 free trade versus trade restrictions, 121-123
 in Latin America, 121
 Orwell, George (*1984*), 44
 outsourcing. *See* BPO (business process outsourcing)

P

parastatals in China, 39
 PAS (Port Authority of Singapore), 215
 payment systems, 178-180
 People's Republic of China. *See* China
 per-capita income statistics, China, 99
 personal future, 223, 238-239
 leadership, 239-241
 flexibility, 243-244
 knowledge and innovation, 241-243
 Petropavlosk-Kamchatsily (Russia)
 example, 258-259
 pharmaceuticals industry
 BPO in, 162
 cross-border alliances, xix-xx
 Philippines, BPO in, 157-158
 Philips Curve, 62
 Philips, Jack, 62
 physical distribution. *See* distribution
 physics analogy (new economy versus old economy), 58-61
 platforms
 ATM as, 141
 BPO as, 161-163
 brands as, 138-140
 credit cards as, 142
 currency platform, dollar (U.S.) as, 137-138
 global business culture as, 140-141
 GPS as, 142-144
 language as, 132-136
 technological platforms, 127-132
 Plaza Accord, 30-33, 66
 Pol Pot, 27
 political challenges, recognition of
 region-states, 109-110
 political economy, 82
 political infrastructure of India and
 global economy, 152-155
 political paradigm and exchange rates, 65-66
 population (characteristics of
 region-states), 93
 Port Authority of Singapore (PAS), 215
 portal sites, 173
 Porter, Michael, 180, 253
 postal services, 187-188
 poverty in India, 152-155
 power of governments, 193-196
 PPP (Purchase Power Parity), 62-65
 pragmatism in government, 198
 products and services, innovation in, 249
 professional services, BPO in India, 151
 protectionism, 52, 84, 166-168
 psychology, role in economics, 60-61
 Purchase Power Parity (PPP), 62-65

Q-R

Quantum Fund, 44
 quantum mechanics, 59
 Raja, Ramalinga, 256
 Reagan, Ronald, 28, 33
 recorded music industry, 230-232
 reforms. *See* economic reforms
 Regan, Donald, 34
 region-states
 characteristics of, 93-96
 in China, 98-103
 federal nations, advantages of, 102
 future prospects of, 255-256
 importance of, xxvi
 in India, 96-97
 microrregions, 103-109
 organizations of. *See* organizations of
 region-states
 recognition of, 109-110
 relationship with nation-states, 110-111
 requirements for success
 flexibility, 113
 marketing, 113-114
 motivation to succeed, 114-115
 specialization, 111-112
 rise of, 92-93
 self-sufficiency of, 97-98
 theater analogy, 82
 regional strategy
 in China, 212
 as part of vision for change, 205-206
 regions. *See* region-states
 Reid, John, xxi
 research material, BPO of, 162
 Ricardo, David, 33, 50, 52-53, 62-65
 rice production in Japan, 188-189
 Ridderstrale, Jonas, 250
Riverdance, 3, 5
 robotics, as technological platform, 131
 Rubin, Robert, 71, 74
 Rudman, Warren, 33
 Russia
 East Siberia example, 266
 Petropavlosk-Kamchatsily (city)
 example, 258-259
 Russian language, taught in Eastern
 Europe, 133

S

Saab, 217
 Sakemara, Ken, 184
 Sakhalin Island (Russia) example, 266
 Samsung, 86
 San Jose (California), as region-state, 97
 Satyam, 256
 savings, effect of interest rates on, 57-58
 São Paulo (Brazil) example, 266-267
 Scania, 217
 Schumacher, Michael, 246

- scientific analogy (new economy versus old economy), 58-61
- Sea Gala, 259
- search engine optimization (SEO), 174-175
- search engine synchronized advertising (SESA), 177
- search engines, xxv-xxvi, 174, 177
- seat reallocation (airlines), BPO of, 161
- SEO (search engine optimization), 174-175
- services and products, innovation in, 249
- SESA (search engine synchronized advertising), 177
- Shakespeare, William, 5, 241
- shared outlooks, xvii
- Sheffield, 108
- Siberia. *See* East Siberia (Russia) example
- Siemens, 212
- SIGNA, 221
- Singapore
- English language instruction in, 136
 - flexibility of region-states, 113
 - governmental policies, 214-217
 - as nation-state, 97
- situation value, 258
- smart cards, as platform, 142
- Smith Kline Beecham, xix
- Smith, Adam, 46, 49-50, 52, 135
- SOEs (state-owned enterprises) in China, 39
- software piracy, 126-127
- Solingen, 108
- Sonera, 14
- Sony, xxi, 268-271
- Sony Music Entertainment, 231
- Sony's EDY (euro-dollar-yen) technology, 178-179
- Soros, George, 44
- Soviet Union
- collapse of, 28-30
 - negative effect of nation-states, 87-88
- specialization
- of microregions, 106-108
 - of region-states, 111-112
- SSH, 14
- stage metaphor for global economy, 5-6
- Stalin, Joseph, 29
- Starbucks, 259
- state-owned enterprises (SOEs) in China, 39
- states. *See* nation-states
- statistics. *See also* economic statistics
- automobile production in United States, 168
 - FDI (foreign direct investment), 197
 - foreign reserves, 48
 - freight, 180
 - Internet usage, 43
 - technology usage in Finland, 16
 - URL addresses, 175
 - VoIP, 234
- strategy and vision and imagination, 271-272
- strong currency, 90
- subsidies, agricultural subsidies in Japan, 67-71
- suburbs, concept of, 186
- Suica (Super Urban Intelligent Card), 179
- Summers, Larry, 74
- supply chains, 180
- supply/pricing curve, 90
- Surutto Kansai card, 179
- Sweden, governmental policies, 217-220
- T**
- Tata Information Services, 23
- Tateishi, Kazumo, 180
- taxation and wealth distribution by governments, 196-197
- technological breakthroughs, xx-xxi
- importance of, xxv-xxvii
- technological future, 223-224
- death of industries, 225-232
 - success in, 235-238
 - VoIP and telecommunications, 233-235
- technological platforms, 127-132
- technology
- effect on economic models, 53-54
 - growth of, 125-126
 - software piracy, 126-127
 - telecommunications, importance for BPO, 148-149
 - usage statistics, Finland, 16
- Tel2, 218
- telecommunications
- importance for BPO, 148-149
 - and VoIP, 233-235
- Telefonica, 21
- Telia, 218
- TeliaSonera, 14, 21
- Tetra Lavall, 217
- Tetrapak, 217
- textile industry, Italian region-states, 106-107
- theorems of Internet behavior, 175-177
- "The Three Respects" (economic reforms in China), 39
- Tivoli Park, 259
- Tokyo Tsushin Kogyo (TTK), xxi
- Toshiba, 268, 270
- Totsuko (TTK), xxi
- Tower Records, 43, 231
- Toyota, 47, 168
- trade deficits and currencies, 30-33
- trade restrictions. *See also* free trade areas
- European Community, 116
 - versus free trade, 121-123

trader's paradigm and exchange rates, 66-67
 transportation (characteristics of region-states), 94
 Travelocity, 259
 Treasury bills and economic models, 448
 Treaty of Rome, 115
 triadians. *See* cyberites
 TTK (Tokyo Tsushin Kogyo), xxi
 twentieth century economics versus global economy models, 45-49

U

UFJ Bank, 234
 unemployment and inflation, 62
 United Arab Emirates, diversity in, 91
 United Kingdom
 concerns about BPO, 169
 Plaza Accord, 30
 United States. *See also* dollar (U.S.)
 advantages of federal nations as region-states, 102
 concerns about BPO, 164-170
 economic policies, 71-75
 Gramm-Rudman Act, 33-35
 Plaza Accord, 30-33
 power of central government, 194
 Universal Studios, 259
 UPS, 22, 181, 188
 URL addresses, statistics on, 175
 USSR. *See* Soviet Union

V

value chains, 180
 value-added trade (Japan), 201-202
 Van Gend en Loos, 115
 Vancouver (British Columbia) example, 259-260
 verifying creditworthiness, 180
 Vestas, 77
 Victoria's Secret, 43
 Vietnam, Ho Chi Minh City example, 263-265
 virtual single company (VSC), 181
 vision and strategy, 271-272
 vision for change, 200-201
 educational role of government, 206-210
 Japan, 201-202
 regional strategy, 205-206
 roadmap for, 202-205
 as trait of good leaders, 240
 visiting locations, importance of, xviii
 Vodafone, 21, 228
 VoIP and telecommunications, 233-235
 Volcker, Paul, 32
 Volvo, 217
 VSC (virtual single company), 181

W

Waterford Glass, 108
 wealth distribution by governments
 bureaucracy, 198-199
 downsizing government, 199-200
 taxation, 196-197
 Wei Liucheng, 257
 Welch, Jack, 236, 244, 251
 Wendt, Henry, xix
 West Germany, Plaza Accord, 30
 Whelan, Bill, 4-5
 Whitman, Meg, 43
 will to succeed of region-states, 114-115
 William Demant, 77
 Windows operating system
 rise of, 35-37
 as technological platform, 131
 WiPro, 23, 152, 256
 Worldcom, 225
 Wriston, Walter, xx
 Wu, David, 135

X-Z

x-BPO (cross-border outsourcing). *See* BPO (business process outsourcing)
 Xia Deren, 9
 Yahoo!, 173-174, 178, 244
 Yamanouchi, 221
 yen, value in relation to dollar (U.S.), 30-33
 Yugoslavia, negative effect of nation-states, 88
 Zara, 182
 Zhu Rongji, 4, 7, 19, 36-39, 75, 103, 211-212, 264
 Zumwinkel, Claus, 188